

Waterfront Development Corporation Limited

Financial Statements

March 31, 2005

Grant Thornton 

Contents

	<u>Page</u>
Management Statement on Financial Reporting	1
Auditors' Report	2
Statement of Earnings and Retained Earnings	3
Balance Sheet	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-12
Statement of Revenue and Expense for the Tall Ships Challenge 2004	13
Schedule of Revenue, Expense and Fund Balance for the Infrastructure Renewal Fund	14

Management Statement on Financial Reporting

To the Shareholder of
Waterfront Development Corporation Limited

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is also responsible to ensure that all information reproduced in the annual report is consistent with the statements. In carrying out its responsibilities, management maintains appropriate systems of internal controls designed to ensure that the financial information produced is relevant and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

Ultimate responsibility for the financial statements rests with the Board of Directors. A Finance Committee of non-management Directors is appointed by the Board to review the financial statements in detail with management and to report to the Directors prior to their approval of the financial statements for publication. The Directors have established standards of conduct for employees to prevent conflicts of interest and unauthorized disclosure of confidential information.

The shareholder's auditors review the financial statements in detail and meet separately with both the Finance Committee and management to review their findings. Grant Thornton LLP, Chartered Accountants report directly to the shareholder.

Bill Campbell
Acting President
May 12, 2005

Eric Thomson
Chair
Board of Directors
May 12, 2005

Suite 1100, Cogswell Tower
2000 Barrington Street
Halifax, Nova Scotia
B3J 3K1
T (902) 421-1734
F (902) 420-1068
E Halifax@GrantThornton.ca
W www.GrantThornton.ca

Canadian Member of Grant Thornton International

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Shareholder of
Waterfront Development Corporation Limited

We have audited the balance sheet of **Waterfront Development Corporation Limited** at March 31, 2005 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
May 12, 2005

Grant Thornton LLP
Chartered Accountants

Suite 1100, Cogswell Tower
2000 Barrington Street
Halifax, Nova Scotia
B3J 3K1
T (902) 421-1734
F (902) 420-1068
E Halifax@GrantThornton.ca
W www.GrantThornton.ca

Waterfront Development Corporation Limited

Statement of Earnings and Retained Earnings

Year Ended March 31

2005

2004

Revenue		
Rents	\$ 3,038,017	\$ 3,032,921
Recoveries	243,393	9,759
Interest income	1,684	924
Other income	12,463	30,543
Grant revenue	<u>262,444</u>	<u>130,732</u>
	<u>3,558,001</u>	<u>3,204,879</u>
Property expenses		
Property taxes	22,005	16,203
Operating	1,064,803	890,083
Depreciation and amortization	<u>305,733</u>	<u>300,432</u>
	<u>1,392,541</u>	<u>1,206,718</u>
Tall Ships revenue (Page 13)	1,883,024	-
Tall Ships expense (Page 13)	<u>1,765,046</u>	<u>-</u>
	<u>117,978</u>	<u>-</u>
Income before other items	<u>2,283,438</u>	<u>1,998,161</u>
Corporate expenses		
Directors' fees and expenses	65,968	55,878
Doubtful accounts expense (recovery)	29,389	(26,845)
Office operations	73,808	80,658
Professional fees		
Audit	24,500	14,500
Programs	164,498	68,433
Legal fees (recovery)	32,305	(204,170)
Salaries, contracts and benefits	558,183	511,876
Waterfront promotions and public relations	<u>48,053</u>	<u>43,796</u>
	<u>996,704</u>	<u>544,126</u>
Loan interest	178,585	233,897
Depreciation on facilities for public access	80,186	92,000
Contribution to non-owned infrastructure	<u>162,389</u>	<u>82,784</u>
	<u>421,160</u>	<u>408,681</u>
Net earnings before appropriations	865,574	1,045,354
Transfer to Special Events and Festivals Fund (Note 8)	(250,000)	-
Transfer to Infrastructure Renewal Fund (Page 14)	<u>(400,000)</u>	<u>(400,000)</u>
Net earnings	215,574	645,354
Retained earnings, beginning of year	<u>4,066,388</u>	<u>3,421,034</u>
Retained earnings, end of year	<u>\$ 4,281,962</u>	<u>\$ 4,066,388</u>

See accompanying notes to the financial statements.

Waterfront Development Corporation Limited

Balance Sheet

March 31 2005 2004

Assets

Current

Cash and cash equivalents	\$ 110,174	\$ -
Receivables - trade	291,810	684,709
Notes receivable (Note 3)	59,726	23,963
Prepays	23,954	31,124
Deferred costs	<u>41,890</u>	<u>182,385</u>
	527,554	922,181

Notes receivable (Note 3) 13,288 25,088

Real estate and development projects (Note 4) 27,749,493 27,405,676

Deferred pension costs 8,163 9,070

\$ 28,298,498 \$ 28,362,015

Liabilities

Current

Bank indebtedness (Notes 5 and 9)	\$ -	\$ 164,366
Payables and accruals	749,123	404,826
Deferred revenue (Note 6)	<u>221,667</u>	<u>478,798</u>
	970,790	1,047,990

Deferred revenue (Note 6) 1,909,766 1,610,989

Loans payable (Note 5) 5,295,647 6,355,364
8,176,203 9,014,343

Shareholder's Equity

Capital stock (Note 7)	3	3
Contributed surplus	13,747,826	13,747,826
Special Events and Festivals Fund (Note 8 and Page 13)	250,000	-
Infrastructure Renewal Fund (Note 9 and Page 14)	1,842,504	1,533,455
Retained earnings	<u>4,281,962</u>	<u>4,066,388</u>
	<u>20,122,295</u>	<u>19,347,672</u>

\$ 28,298,498 \$ 28,362,015

Commitments (Note 11)

Contingencies (Note 13)

On behalf of the Board

Director Director

See accompanying notes to the financial statements.

Waterfront Development Corporation Limited

Statement of Cash Flows

Year Ended March 31

2005

2004

Increase (decrease) in cash and cash equivalents

Operating

Net earnings before appropriation	\$ 865,574	\$ 1,045,354
Depreciation and amortization	<u>385,919</u>	<u>392,432</u>
	1,251,493	1,437,786

Change in non-cash operating working
capital (Note 10)

<u>885,768</u>	<u>(715,026)</u>
<u>2,137,261</u>	<u>722,760</u>

Financing

Interest earned on Infrastructure Renewal Fund	46,950	45,517
Expenditures from Infrastructure Renewal Fund	(137,901)	(156,023)
Increase (decrease) in notes receivable	(23,963)	11,493
Decrease in loans payable	<u>(1,059,717)</u>	<u>(300,000)</u>
	<u>(1,174,631)</u>	<u>(399,013)</u>

Investing

Purchase of equipment	(81,210)	(21,301)
Purchase of real estate and construction projects, net	(648,526)	(267,205)
Deferred revenue	<u>41,646</u>	<u>161,373</u>
	<u>(688,090)</u>	<u>(127,133)</u>

Net increase in cash and cash equivalents 274,540 196,614

Cash and cash equivalents, net of bank indebtedness

Beginning of year (164,366) (360,980)

End of year \$ 110,174 \$ (164,366)

See accompanying notes to the financial statements.

Waterfront Development Corporation Limited

Notes to the Financial Statements

March 31, 2005

1. Nature of operations

The Corporation was declared a Provincial Crown Corporation by order of His Honour the Lieutenant Governor in Council No. 76-373 dated March 30, 1976.

The Corporation's mission is to service as champion of a dynamic vision and to plan, coordinate, promote and develop properties, events and activities on designated waterfronts around Halifax Harbour.

2. Summary of significant accounting policies

Revenue recognition

Rent and recovery revenues are recorded on an accrual basis as earned.

Revenue generated as a result of property development is applied as a reduction in the cost. The Corporation receives amounts from third parties for dumping fill on a Corporation property. These amounts have been offset against accumulated development costs related to the property and the excess has been recorded as deferred revenue.

Government assistance for capital projects are accounted for as a reduction in the capital cost of the applicable project. Government assistance related to the cost recovery of overhead costs are accounted for as grant revenue.

Income taxes

As a Provincial Crown Corporation, the Corporation is exempt from income taxes under the provisions of the Income Tax Act.

Depreciation

All expenditures directly related to acquisition, renovation and development are included in the cost of real estate.

Building and equipment

Assets are depreciated on a straight line basis over their useful life, but not greater than 50 years, at rates between 2% and 33.3% per annum.

Long-term lease

The cost of the lease referred to in Note 4 is amortized over its term.

Development costs

Costs for projects constructed on Corporation lands are capitalized and depreciated at 2% per annum.

Waterfront Development Corporation Limited

Notes to the Financial Statements

March 31, 2005

2. Summary of significant accounting policies (continued)

Real estate and development projects

During the year the Corporation formalized a policy related to Section 3063 of the CICA Handbook, Impairment of Long-Lived Assets. This section affects how the Corporation determines and measures impairment. On an annual basis, the Corporation reviews the carrying amounts of properties held and used in the fulfilling of its mandate. This includes both revenue producing properties as well as properties held for the greater public interest.

If a change in circumstances or occurrence of particular events indicate that such carrying values may be impaired, the amount of the loss is determined by deducting the asset's fair value (as determined by an independent appraisal or comparison to objective market values of comparable properties) from its carrying value.

There are ongoing negotiations for potential development projects on the Bedford, Dartmouth and Halifax waterfronts. The outcome of these negotiations and the possible financial impact on fair market value of the existing land and buildings is indeterminable at this time.

Non-owned infrastructure

The Board of Directors approves expenditures related to improvements to facilities for public access which are not owned or leased by the Corporation. These expenditures are expensed as incurred.

Use of estimates

In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

Cash and cash equivalents and bank indebtedness

Cash and cash equivalents, net of bank indebtedness, is comprised of cash on hand, cash held in banks and credit facilities as detailed in Note 5.

Financial instruments

The fair value of cash and cash equivalents, receivables, payables and accruals, and loans payable approximate their carrying amounts because of their short term to maturity.

Notes receivable are subject to credit risk. In management's opinion these risks are not significant.

Waterfront Development Corporation Limited

Notes to the Financial Statements

March 31, 2005

3. Notes receivable	2005	2004
Note receivable bearing interest at a variable rate calculated annually, repayable in blended monthly payments of \$444 (due to lump sum payment), maturing June 2006.	\$ 6,491	\$ 23,889
Note receivable bearing interest at 9%, repayable in blended monthly payments of \$253, maturing March 2008.	7,934	10,162
Note receivable bearing interest at 6%, repayable in blended monthly payments of \$554, maturing March 2007.	12,502	15,000
Note receivable bearing interest at 6%, repayable in blended monthly payments of \$69, maturing April 2009. Repaid in full subsequent to year end.	3,601	-
Note receivable, non-interest bearing, to be repaid in annual instalments due November 1 st of each year beginning in November 2005. Repaid in full subsequent to year end.	<u>42,486</u> 73,014	<u>-</u> 49,051
Less: Current portion	<u>59,726</u>	<u>23,963</u>
	<u>\$ 13,288</u>	<u>\$ 25,088</u>

4.	Real estate and development projects		2005	2004
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Facilities for public access	\$ 6,869,393	\$ 1,536,957	\$ 5,332,436	\$ 4,964,695
Real estate and development projects	<u>27,254,991</u>	<u>4,837,934</u>	<u>22,417,057</u>	<u>22,440,981</u>
	\$ 34,124,384	\$ 6,374,891	\$ 27,749,493	\$ 27,405,676

Included in the cost of real estate is a prepaid long-term lease from the Federal Department of Public Works for a term of 45 years from 1977, with three ten-year renewal options.

Waterfront Development Corporation Limited

Notes to the Financial Statements

March 31, 2005

5. Credit facility

- (i) The Corporation has available a combined credit facility of \$18,100,000, of which \$14,500,000 is secured by a guarantee of the Province of Nova Scotia until February 15, 2007, bearing interest at the Bank of Montreal prime rate, less 0.95 percent. The additional \$3,600,000 is available at the Bank's prime rate to be secured by a negative pledge regarding its real property.

(ii) Loans payable	2005	2004
Capital projects	\$ 4,200,000	\$ 4,600,000
Office of Economic Development, non-interest bearing	<u>1,095,647</u>	<u>1,755,364</u>
	<u>\$ 5,295,647</u>	<u>\$ 6,355,364</u>

The loan from the Office of Economic Development is secured by a charge over specific real property and is to be repaid from excess funds generated from sales of real estate development.

Cash flows resulting from the following have been used temporarily to repay the loan related to capital projects. If segregated funding was required or costs incurred to finance related developments and activities, and the amount was drawn against the credit facility, the loan payable for capital projects would increase from \$4,200,000 to \$8,202,270 and total loans to \$9,297,517 as illustrated below:

	2005	2004
Capital projects:		
Loan payable	\$ 4,200,000	\$ 4,600,000
Bedford infill (Note 6)	1,909,766	1,610,989
Special events and festival fund (Note 8)	250,000	-
Infrastructure Renewal Fund (Note 9 and Page 14)	<u>1,842,504</u>	<u>1,533,455</u>
	<u>8,202,270</u>	<u>7,744,444</u>
Office of Economic Development, non-interest bearing	<u>1,095,247</u>	<u>1,755,364</u>
	<u>\$ 9,297,517</u>	<u>\$ 9,499,808</u>

6. Deferred revenue

	2005	2004
Current		
Economic recovery studies and proposals	\$ 66,667	\$ 92,811
Deposits for project developments	155,000	-
Tall Ships Challenge 2004 sponsorships	<u>-</u>	<u>385,987</u>
	<u>\$ 221,667</u>	<u>\$ 478,798</u>
Long-term		
Bedford Infill	<u>\$ 1,909,766</u>	<u>\$ 1,610,989</u>

Waterfront Development Corporation Limited

Notes to the Financial Statements

March 31, 2005

6. Deferred revenue (continued)

The Corporation receives amounts from third parties for dumping fill in Bedford. The intent is to develop the property and utilize this long-term deferred revenue in that development over future periods.

In the current year, amounts received on the Bedford infill exceeded costs incurred and, therefore, the excess was added to the deferred revenue. In the prior year, costs incurred on the Bedford infill exceeded the amounts received and therefore the excess was removed from the deferred revenue and applied against those costs.

7. Capital stock	2005	2004
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Authorized:

5,000 shares without nominal or par value

Issued:

3 shares

\$ 3 \$ 3

The shares are held in trust by one representative of the Province for the Queen in Right of the Province of Nova Scotia.

8. Special events and festivals fund

The special events and festivals fund has been established to provide a source of initial funding for future events and festivals that the Corporation promotes.

The Corporation has not established a separate cash investment account for this fund. All excess cash of the Corporation has been applied against the capital project loan payable (refer to Note 5). Any expenditures from this fund will be funded from the current credit facility.

9. Infrastructure renewal fund

The infrastructure renewal fund (Page 14) shall be used for the renewal or replacement of public use facilities such as wharves, boardwalks, and parks, when such work is required as a result of aging. In general, the fund will not be used for ordinary repairs necessitated by other causes, or for repair/replacement of minor portions of such assets. Exceptions may be made when deemed appropriate by management in consultation with the Board. Interest has been allocated to the fund based on the interest rate paid on the credit facility.

The Corporation has not established a separate cash investment account for the infrastructure renewal fund. All excess cash of the Corporation has been applied against the capital project loan payable (refer to Note 5). Any expenditures from this fund will be funded from the current credit facility.

Waterfront Development Corporation Limited

Notes to the Financial Statements

March 31, 2005

10. Supplemental cash flow information	2005	2004
Change in non-cash operating working capital		
Receivables - trade	\$ 392,899	\$ (479,205)
Prepays	7,170	(24,177)
Deferred costs	140,495	(182,385)
Deferred pension costs	907	907
Payables and accruals	<u>344,297</u>	<u>(30,166)</u>
	<u>\$ 885,768</u>	<u>\$ (715,026)</u>
Cash and cash equivalents, net of bank indebtedness is comprised of the following:		
Cash in bank account and on hand	\$ 110,174	\$ 4,180
Line of credit	<u>-</u>	<u>(168,546)</u>
	<u>\$ 110,174</u>	<u>\$ (164,366)</u>
Interest paid	<u>\$ 178,585</u>	<u>\$ 233,897</u>

11. Commitments

- (i) The Corporation has entered into a lease agreement for the water lot portion of Queen's Wharf. Minimum lease payments over the next five years, assuming renewal at similar terms, are as follows:

2006	\$ 1,016
2007	1,016
2008	1,016
2009	1,016
2010	1,016

- (ii) The Corporation has agreed to provide compensation, not to exceed \$75,000, to replace fish habitat displaced as a result of infilling the Bedford Water lots.

12. Employee pension plan

The Corporation is a participant in a multi-employer pension plan, the Nova Scotia Public Service Superannuation Plan. The plan required payments for past service benefits which are being amortized to earnings over the expected average remaining service life of the employee group.

The most recent actuarial valuation of this plan was completed as at December 31, 2003 and includes pension assets of \$2,982,100,000, and pension liabilities of \$3,474,900,000, resulting in an unfunded liability of (\$492,800,000). The amount applicable to the Corporation is not determinable and should not be significant as its participation includes only five employees.

Waterfront Development Corporation Limited

Notes to the Financial Statements

March 31, 2005

13. Contingencies

- (i) Certain of the Corporation's claim over post-confederation waterlots are being disputed by the Halifax Port Authority. The Corporation is presently in discussions with the Halifax Port Authority to establish a memorandum of understanding. This could include a cash payment by the Corporation to the Halifax Port Authority to settle this dispute, or the swapping of Provincial lands not owned by the Corporation.

No legal action has taken place and the Corporation is hopeful of reaching a mutually agreeable settlement without legal intervention. The likelihood and amount of any cash payment is undeterminable at this time.

- (ii) A contract exists with the Armour Group Limited respecting the Queen's Landing/Maritime Museum expansion project which establishes future commitments of the Corporation should the public portion of the development not proceed, the amount of which is undeterminable at this time.
- (iii) The Corporation has been named in a claim presented to the courts, claiming breach of contracts in respect of a purchase and sale agreement for land in Bedford, Nova Scotia. The outcome is undetermined at this time and no amounts have been recorded in these financial statements. It has been determined that the likelihood of success by the plaintiff is low, but should the claim be successful, the Corporation will seek reimbursement from the Province.

14. Comparative figures

Certain of the comparative figures have been reclassified to conform with presentation adopted in the current year.

Waterfront Development Corporation Limited
Tall Ships Challenge 2004
Statement of Revenue and Expense

Year ended March 31

2004

Revenue

Private sponsorship	\$ 471,196
Government grant and sponsorships	988,266
Boarding pass sales and other	<u>423,562</u>
	<u>1,883,024</u>

Expense

Administration	100,229
After ports program	436,246
ASTA fees	67,110
Fleet and crew	247,963
Insurance	20,985
Marketing	83,479
Property rental	54,000
Shore side/public viewing	356,656
Sponsor costs	48,778
Staff and management	317,646
Volunteer support	<u>31,954</u>
	<u>1,765,046</u>

Excess of revenue over expenditures	\$ <u>117,978</u>
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Waterfront Development Corporation Limited
Schedule of Revenue, Expense and Fund Balance for the
Infrastructure Renewal Fund

Year ended March 31	2005	2004
Revenue		
Interest	\$ 46,950	\$ 45,517
Expense		
Cable wharf upgrade	<u>137,901</u>	<u>156,023</u>
Deficiency of expense over revenue	\$ <u>(90,951)</u>	\$ <u>(110,506)</u>
Fund Balance, beginning of year	\$ 1,533,455	\$ 1,243,961
Deficiency of expense over revenue	(90,951)	(110,506)
Transfer from operations	<u>400,000</u>	<u>400,000</u>
Fund Balance, end of year	\$ <u>1,842,504</u>	\$ <u>1,533,455</u>

